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RUEHBR/AMEMBASSY BRASILIA 5970
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RUEHSG/AMEMBASSY SANTIAGO 3982
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C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 001622

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TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)
SUBJECT: PDVSA: NEW LIFE IN THE EMBERS?

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

¶11. (C) SUMMARY: The president of the Petroleum Chamber of Venezuela believes significant new investments will occur in the Faja in the near future beginning with de-bottlenecking projects in the existing upgraders. Leading candidates for new projects in the Faja are Petrobras, Shell, and the Chinese. Progress is being made in the deep conversion project at the Puerto La Cruz refinery. As a result of the current fiscal regime, many smaller projects are no longer commercially viable. If the BRV applies the same fiscal regime to gas projects as it does oil projects, it will effectively kill the gas sector. END SUMMARY

WHERE IS THE LIGHTER FLUID?

¶12. (C) Petroleum Attaché (Petatt) met with Antonio Vincentelli, the president of the Petroleum Chamber of Venezuela, on August 14 to discuss current trends in the hydrocarbon sector. Vincentelli is also a director of Inelectra, the largest Venezuelan construction and engineering firm. Vincentelli began the meeting by noting that Petroleum Chamber members were facing a mixed picture in terms of the operating environment. On the positive side, PDVSA appears to be granting more contracts recently.

¶13. (C) Vincentelli also stated he was optimistic about the development of the Faja. He stated once the BRV and PDVSA have finished with the migration of the strategic associations to PDVSA-controlled joint ventures, they will begin pushing new projects in the Faja. Vincentelli believes the first projects to see the light of day will be a series of debottlenecking projects at the four Faja upgraders. (NOTE: Debottlenecking refers to the removal of impediments in the production process that limits or impedes production. END NOTE) He said Inelectra had received a major contract for a debottlenecking project at the Cerro Negro upgrader but

the project was put on hold when it appeared the BRV was going to force the strategic associations to migrate to joint ventures.

¶4. (C) Once the debottlenecking projects are out of the way, Vincentelli believes the BRV will strike agreements with Total and Chevron for two major new projects. He stated Total in conjunction with Statoil will be given permission for the Sincor II project, which utilizes Sincor's existing infrastructure. He believes Chevron will receive permission for a new project with Repsol or to expand the existing Ameriven project. Both Chevron and Total have been lobbying for the respective projects for a number of years and have drawn up detailed plans for the projects. Vincentelli claimed the companies would be interested provided the BRV and PDVSA could offer them good terms on governability. He added the companies would also have to believe that the operating environment in Venezuela has stabilized. He stated he believes a significant number of oil companies would participate in an auction of Faja blocks if the BRV organized one in a year or two.

¶5. (C) When asked about other candidates, Vincentelli opined that most of the companies currently carrying out certification studies in the Faja did not have the three necessary assets for a major Faja project: market, finance, and technology (including human capital). In Vincentelli's opinion, Petrobras, Shell, and the Chinese all have the requisite assets for the job. He noted the crude from Petrobras' certification block would be relatively easy to produce and the block could utilize existing infrastructure. Shell specializes in extra heavy crude technology and has been quietly angling for a Faja block for several years.

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Vincentelli said he was very impressed with the way that Shell has been working its way back into the BRV's good graces. Shell has significantly reduced its profile in Venezuela and changed its strategy from one of confrontation to one that focuses on its technology.

¶6. (C) According to Vincentelli, the Chinese can offer Venezuela a market for Faja production as well as deep pockets. The Chinese do not have the necessary technology but are willing to enter into the necessary licensing agreements to secure it. Vincentelli stated he attended a CNPC presentation to PDVSA in which the Chinese candidly stated they had a number of licenses from Western service companies. In addition, the Chinese have no reservations about partnering with other companies in order to get the job accomplished. Vincentelli noted the Chinese have partnered with the Indians in Colombia.

REFINERIES

¶7. (C) Vincentelli also stated the deep conversion project at the Puerto La Cruz refinery was progressing. He also stated the plans for the new refineries were also being drawn up in a timely manner. (NOTE: Deep conversion is the refining process used to transform extra-heavy crudes into lighter, less viscous oils. END NOTE)

¶8. (C) Vincentelli opined that President Chavez' policy of promising refineries to multiple countries was quite intelligent. Although it was impossible to build all of the proposed refineries, the promise of a refinery was a powerful incentive for countries to try and stay on Chavez' good side.

GAS

¶9. (C) Vincentelli's primary concern was the BRV statements that it will amend the Gas Law and apply the oil sector's regulatory and fiscal regime to the gas sector. He stated the major projects in the Faja could support the current

hydrocarbon law's heavy fiscal burden. However, as a result of the current fiscal regime, many smaller oil projects are no longer commercially viable. Vincentelli said the application of the oil sector's fiscal regime to the gas sector would effectively kill all of the current gas projects. Without an increase in gas production, PDVSA could not carry out its refinery projects or increase the recovery rate in the Faja. Vincentelli claimed PDVSA and Energy Ministry officials were aware of the fact that Venezuela must increase its gas production. However, when pressed, he admitted he was still concerned that the BRV would implement gas reforms that would effectively shut down the sector.

COMMENT

¶110. (C) It is still too soon to say if the BRV has turned a corner and adopted a more pragmatic hydrocarbons policy. Service company representatives have told us that contracts are beginning to be awarded and that they have seen an up-tick in business. However, service contracts are usually awarded this time of year so it is not clear that we have seen a change in the way PDVSA conducts business. We agree with Vincentelli that the oil companies are still lusting after Faja blocks. Memories are quite short in the oil sector and, as Chevron's Ali Moshiri is fond of noting, the Faja and the Canadian oil sands represent the sector's future. The question, at this point, is whether the BRV will assuage the oil companies' fears over governability and stability sufficiently to entice them into making major

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investments in Venezuela.

FRENCH